

LEOFF 1 Ex-spouse Survivor Benefits

Background

Benefits to many ex-spouses of LEOFF 1 members may cease after the member's death.

Under the most recent legislation, ex-spouses of LEOFF 1 members may qualify for survivor benefits if they divorced prior to the member's separation from service and entered into a court order or court approved property settlement after July 1, 2003. In such an instance, the ex-spouse may be awarded a portion of the member's benefit and survivor benefit if that benefit is so designated in the order or settlement.

Earlier provisions in LEOFF 1 required ex-spouses to meet stringent criteria to be eligible for survivor benefits. Prior to 1980, ex-spouses could only qualify if they had been married to the member for 30 years, 20 of which were before the member retired. More recently, an ex-spouse could qualify for survivor benefits if the member had 30 years of service and they had been married at least 25 years. Outside of those narrow parameters, the benefit for a spouse who divorced and entered into a property settlement prior to July 1, 2003 will cease upon the death of the member.

Committee Activity

Presentations:

November 9, 2004 - Executive Committee

December 7, 2004 - Full Committee

Proposal:

December 7, 2004 - Full Committee

Recommendation to Legislature

Allow all ex-spouses of LEOFF 1 members, who have been provided benefits under any court approved property settlement agreement incident to the divorce of the member and ex-spouse, to continue receiving those benefits after the death of the member. And allow those ex-spouses whose benefit was suspended upon the death of the member to resume their benefit.

Staff Contact

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237 – baker.robert@leg.wa.gov

Select Committee on Pension Policy

LEOFF 1 Ex-spouse Survivor Benefits

(November 22, 2004)

Proposal

Allow all ex-spouses of Law Enforcement Officer's and Fire Fighter's Retirement System Plan 1 (LEOFF 1) members, who have been provided benefits under any court approved property settlement agreement incident to the divorce of the member and ex-spouse, to continue receiving those benefits after the death of the member. And allow those ex-spouses whose benefit was suspended upon the death of the member to resume their benefit.

Staff

Robert Wm. Baker, Senior Research Analyst
(360) 586-9237

Members Impacted

As of the 2003 valuation, there were 991 active members, 6,870 retirees, and 1,184 survivors in LEOFF 1. Ex-spouses who may be pre-deceased or have been pre-deceased by members would be impacted; there are an estimated 250 ex-spouses who may be impacted by such change to survivor eligibility provisions.

Current Situation

Benefits to many ex-spouses of LEOFF 1 members may cease after the member's death.

Under the most recent legislation, ex-spouses of LEOFF 1 members may qualify for survivor benefits if they divorced prior to the member's separation from service and entered into a court

order or court approved property settlement after July 1, 2003. In such an instance, the ex-spouse may be awarded a portion of the member's benefit and survivor benefit if that benefit is so designated in the order or settlement.

Earlier provisions in LEOFF 1 required ex-spouses to meet stringent criteria to be eligible for survivor benefits. Prior to 1980, ex-spouses could only qualify if they had been married to the member for 30 years, 20 of which were before the member retired. More recently, an ex-spouse could qualify for survivor benefits if the member had 30 years of service and they had been married at least 25 years. Outside of those narrow parameters, the benefit for a spouse who divorced and entered into a property settlement prior to July 1, 2003 will cease upon the death of the member.

Policy Analysis

The recent expansion of benefits in LEOFF 1 allowing ex-spouses to receive survivor benefits established new policy in this area. Earlier retroactive remedies for ex-spouse survivor benefits were narrowly constructed, and benefitted very few individuals. As a result, earlier policies and statutes that govern the benefits of members who divorced and entered into a property settlement before July 1, 2003 are in conflict with the more current policy. Adding to the complexity of the issue is the difficulty of retroactively modifying court-approved property settlements, particularly after the death of one of the principals.

A retroactive benefit issue, such as this, also has funding policy implications. One of the general policies found in the funding chapter (RCW 41.45) is "Fund, to the extent feasible, benefit increases for all plan members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service." This policy is based on the concept of inter-generational equity. The average age of remaining active LEOFF 1 members is 54 years, and their average member service is 29.3 years. For a plan that wasn't fully funded, there would be scant

time for members who are already retirement eligible to contribute to a retroactive benefit increase. Because LEOFF 1 is in surplus status at this time, any benefit increase would draw on that surplus.

Stakeholder Input

Senator Bob Morton
7th Legislative District
See attached correspondence

Philip A. Talmadge
Talmadge Law Group PLLC
See attached correspondence

Executive Committee Recommendation

At the November meeting, the Executive Committee of the Select Committee on Pension Policy recommended forwarding the LEOFF 1 ex-spouse survivor benefits issue to the full committee for consideration.

Bill Draft

See attachment

Fiscal Note

See attachment



RECEIVED

MAY 21 2004

Olympia Office:
115D Irv Newhouse Building
PO Box 40407
Olympia, WA 98504-0407
Phone: (360) 786-7612
FAX: (360) 786-1999
E-mail: morton_bo@leg.wa.gov

Washington State Senate

Senator Bob Morton
7th Legislative District

**Office of
The State Actuary
District Office:**
3278 Pierre Lake Road
Kettle Falls, WA 99141
Phone: (509) 684-5132

May 19, 2004

Dear Members of the Select Committee on Pension Policy:

During this past session, I was contacted by a former constituent, Sandra White, who is in dire financial circumstances because of the application of a survivor benefit statute. I would like to request that the Select Committee on Pension Policy ("SCPP") consider legislation that would remedy Ms. White's unfortunate plight.

Enclosed is Ms. White's correspondence, and following is a summary of her issue in the hope that the SCPP will find this useful in its consideration of this matter:

Issue

Ms. White was married to a LEOFF 1 member for 41 years. They divorced in 2000, some four years after he retired. The court order entitled her to half of his retirement benefit. Mr. White died one month after the divorce, thereby terminating Ms. White's retirement allowance. As a homemaker for all the years of their marriage, Ms. White has little money now.

2002 Legislative Change: Survivor Benefit for Ex-Spouses of LEOFF 1 Members

In the 2002 session, the legislature passed ESB 6380 which, among other things, granted a survivor benefit to ex-spouses of LEOFF 1 members, provided certain criteria were met.

The criteria included: (a) the member must have had 30 years of service, (b) the parties must have been married at least 25 years, and (c) the parties must have entered into a court-approved property settlement agreement awarding a portion of the member's benefits to the ex-spouse after June 13, 2002.

Under the bill as passed, Ms. White did not qualify for a survivor benefit. Her husband had 29 years & 10 months of service, not 30 years. And the court order entitling her to half of his retirement was entered in 2000, not after June 13, 2002.

Options to Solve Ms. White's Situation

There are several ways in which Ms. White's situation could be remedied and a survivor benefit could be obtained. Most notably, SB 6380 as it passed the Senate in 2002 would have solved Ms. White's problem, as it did not have the thirty year member requirement nor the time restriction on when the court order was entered into. Had that version not been subsequently amended, Ms. White would be receiving benefits now. I would ask the committee to consider this, or another alternative, as a solution to Ms. White's problem.

Thank you for your consideration.

Cordially yours,

A handwritten signature in black ink that reads "Bob".

BOB MORTON
State Senator

Enclosure

cc: Matthew Smith ✓

TALMADGE LAW GROUP PLLC
18010 SOUTHCENTER PARKWAY
TUKWILA, WASHINGTON 98188
(206) 574-6661 (206) 575-1397 FAX

November 5, 2004

Senator Karen Fraser
Select Committee on Pension Policy
PO Box 40422
Olympia, WA 98504-0422

Re: LEOFF Plan 1 Survivor Benefits

Dear Senator Fraser:

I am writing to you on behalf of the Retired Firefighters of Washington (RFFOW) regarding LEOFF Plan 1 survivor benefits, a topic that is on the agenda of the Executive Committee of the Select Committee on Pension Policy on November 9, 2004.

By way of background, the issue of how to fairly treat the ex-spouses of LEOFF Plan 1 members with respect to benefits has been a difficult one. For a service retirement under LEOFF Plan 1, a member received benefits until his or her death. The law allowed a survivorship benefit. RCW 41.26.160. However, the ex-spouse of the LEOFF Plan 1 member did not qualify for that benefit.

The Washington Supreme Court in *Arnold v. Dep't of Retirement Systems*, 128 Wn.2d 765, 912 P.2d 463 (1996), indicated that the Legislature's decision in RCW 41.26.160 to exclude ex-spouses of LEOFF members as beneficiaries of the LEOFF survivor benefit was constitutional. Moreover, the Court determined that statutory pension benefits could not be divided by a dissolution decree because the LEOFF Plan 1 benefits were personal to the firefighter or law enforcement officer and were not subject to community property law. The Court indicated, however, that a dissolution decree could address the concerns of a spouse not receiving the statutory benefits by a disproportionate award of other property, community and separate.

In 1999, the Legislature amended RCW 41.26.160 to differentiate between survivor benefits based on injuries or death incurred in the line of

duty and benefits occasioned by injuries or death not incurred in the line of duty. However, the Legislature did not address the question of the authority of the Department of Retirement Systems to split the benefit stream and allocate pension benefits between a firefighter and police officer and his or her spouse during the LEOFF Plan 1 member's lifetime in the dissolution decree. The Legislature also did not address the ex-spouse survivorship benefit issue.

These issues were finally addressed by the 2002 Legislature. The Legislature enacted ESB 6380 to permit the Department of Retirement Systems to separately pay retirement benefits to a LEOFF Plan 1 member and the member's divorced spouse pursuant to a dissolution decree. RCW 41.26.460.

The Legislature also redefined survivorship benefits for the former spouses of LEOFF Plan 1 members. RCW 41.26.162(2) indicated that former spouse of LEOFF Plan 1 member who divorced the member before the member retired, may qualify for the survivorship benefit of RCW 41.26.160 if a court order is entered in the dissolution after July 1, 2003. RCW 41.26.162(3) indicated that an ex-spouse of a LEOFF Plan 1 member with at least 30 years of service, who was married to the member for at least 25 years, and entered into a court-ordered property division after June 13, 2002, may also qualify for survivorship benefits.

The Legislature's treatment of eligibility of ex-spouses for survivorship benefits in RCW 41.26.162 creates serious inequities. The Committee received a May 19, 2004 letter from Senator Bob Morton (see attached) regarding one of his former constituents who was denied the LEOFF Plan 1 survivorship benefits because her husband, a LEOFF Plan 1 member, had 29 years and 10 months of service instead of 30 years, and the court order granting her a portion of his retirement benefit was entered in 2000 rather than after June 13, 2002.

RFFOW believe that eligibility standards of RCW 41.26.162(3) should be amended. This is a matter of simple equity for the former spouses of LEOFF Plan 1 members. These ex-spouses, mainly women, are severely financially impacted by their inability to receive benefits under LEOFF Plan 1. Many of the women so affected did not, and do not work, outside of the home. They do not have their own Social Security benefits. Moreover, most firefighters and law enforcement officers do not have Social Security benefits, and survivorship benefits under the Social Security Act are therefore not available to these women.

RFFOW would support legislation to broaden the eligibility of former spouses of LEOFF Plan 1 members for benefits under RCW 41.26.162(3).

Thank you for your attention to this very important issue. RFFOW hopes that the Committee will recommend changes in the eligibility standard for RCW 41.26.162(3) so that the ex-spouses of LEOFF Plan 1 members will be treated more fairly than is true under present law.

Very truly yours,

Philip A. Talmadge

PAT:gab

Attachment

cc: Richard C. Warbrouck
Executive Committee Members
Matt Smith

1 AN ACT Relating to survivor benefits for ex spouses in the law
2 enforcement officers' and fire fighters' retirement system, plan 1; and
3 amending RCW 41.26.160, 41.26.161, and 41.26.162.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

5 **Sec. 1.** RCW 41.26.160 and 2002 c 158 s 1 are each amended to read
6 as follows:

7 (1) In the event of the duty connected death of any member who is
8 in active service, or who has vested under the provisions of RCW
9 41.26.090 with twenty or more service credit years of service, or who
10 is on duty connected disability leave or retired for duty connected
11 disability, the surviving spouse shall become entitled, subject to RCW
12 41.26.162(~~((+2))~~), to receive a monthly allowance equal to fifty percent
13 of the final average salary at the date of death if active, or the
14 amount of retirement allowance the vested member would have received at
15 age fifty, or the amount of the retirement allowance such retired
16 member was receiving at the time of death if retired for duty connected
17 disability. The amount of this allowance will be increased five
18 percent of final average salary for each child as defined in RCW
19 41.26.030(7), subject to a maximum combined allowance of sixty percent

1 of final average salary: PROVIDED, That if the child or children is or
2 are in the care of a legal guardian, payment of the increase
3 attributable to each child will be made to the child's legal guardian
4 or, in the absence of a legal guardian and if the member has created a
5 trust for the benefit of the child or children, payment of the increase
6 attributable to each child will be made to the trust.

7 (2) If at the time of the duty connected death of a vested member
8 with twenty or more service credit years of service as provided in
9 subsection (1) of this section or a member retired for duty connected
10 disability, the surviving spouse has not been lawfully married to such
11 member for one year prior to retirement or separation from service if
12 a vested member, the surviving spouse shall not be eligible to receive
13 the benefits under this section: PROVIDED, That if a member dies as a
14 result of a disability incurred in the line of duty, then if he or she
15 was married at the time he or she was disabled, the surviving spouse
16 shall be eligible to receive the benefits under this section.

17 (3) If there be no surviving spouse eligible to receive benefits at
18 the time of such member's duty connected death, then the child or
19 children of such member shall receive a monthly allowance equal to
20 thirty percent of final average salary for one child and an additional
21 ten percent for each additional child subject to a maximum combined
22 payment, under this subsection, of sixty percent of final average
23 salary. When there cease to be any eligible children as defined in RCW
24 41.26.030(7), there shall be paid to the legal heirs of the member the
25 excess, if any, of accumulated contributions of the member at the time
26 of death over all payments made to survivors on his or her behalf under
27 this chapter: PROVIDED, That payments under this subsection to
28 children shall be prorated equally among the children, if more than
29 one. If the member has created a trust for the benefit of the child or
30 children, the payment shall be made to the trust.

31 (4) In the event that there is no surviving spouse eligible to
32 receive benefits under this section, and that there be no child or
33 children eligible to receive benefits under this section, then the
34 accumulated contributions shall be paid to the estate of the member.

35 (5) If a surviving spouse receiving benefits under this section
36 remarries after June 13, 2002, the surviving spouse shall continue to
37 receive the benefits under this section.

1 (6) If a surviving spouse receiving benefits under the provisions
2 of this section thereafter dies and there are children as defined in
3 RCW 41.26.030(7), payment to the spouse shall cease and the child or
4 children shall receive the benefits as provided in subsection (3) of
5 this section.

6 (7) The payment provided by this section shall become due the day
7 following the date of death and payments shall be retroactive to that
8 date.

9 **Sec. 2.** RCW 41.26.161 and 2002 c 158 s 2 are each amended to read
10 as follows:

11 (1) In the event of the nonduty connected death of any member who
12 is in active service, or who has vested under the provisions of RCW
13 41.26.090 with twenty or more service credit years of service, or who
14 is on disability leave or retired, whether for nonduty connected
15 disability or service, the surviving spouse shall become entitled,
16 subject to RCW 41.26.162(~~((+2))~~), to receive a monthly allowance equal
17 to fifty percent of the final average salary at the date of death if
18 active, or the amount of retirement allowance the vested member would
19 have received at age fifty, or the amount of the retirement allowance
20 such retired member was receiving at the time of death if retired for
21 service or nonduty connected disability. The amount of this allowance
22 will be increased five percent of final average salary for each child
23 as defined in RCW 41.26.030(7), subject to a maximum combined allowance
24 of sixty percent of final average salary: PROVIDED, That if the child
25 or children is or are in the care of a legal guardian, payment of the
26 increase attributable to each child will be made to the child's legal
27 guardian or, in the absence of a legal guardian and if the member has
28 created a trust for the benefit of the child or children, payment of
29 the increase attributable to each child will be made to the trust.

30 (2) If at the time of the death of a vested member with twenty or
31 more service credit years of service as provided in subsection (1) of
32 this section or a member retired for service or disability, the
33 surviving spouse has not been lawfully married to such member for one
34 year prior to retirement or separation from service if a vested member,
35 the surviving spouse shall not be eligible to receive the benefits
36 under this section.

1 (3) If there be no surviving spouse eligible to receive benefits at
2 the time of such member's death, then the child or children of such
3 member shall receive a monthly allowance equal to thirty percent of
4 final average salary for one child and an additional ten percent for
5 each additional child subject to a maximum combined payment, under this
6 subsection, of sixty percent of final average salary. When there cease
7 to be any eligible children as defined in RCW 41.26.030(7), there shall
8 be paid to the legal heirs of the member the excess, if any, of
9 accumulated contributions of the member at the time of death over all
10 payments made to survivors on his or her behalf under this chapter:
11 PROVIDED, That payments under this subsection to children shall be
12 prorated equally among the children, if more than one. If the member
13 has created a trust for the benefit of the child or children, the
14 payment shall be made to the trust.

15 (4) In the event that there is no surviving spouse eligible to
16 receive benefits under this section, and that there be no child or
17 children eligible to receive benefits under this section, then the
18 accumulated contributions shall be paid to the estate of said member.

19 (5) If a surviving spouse receiving benefits under this section
20 remarries after June 13, 2002, the surviving spouse shall continue to
21 receive the benefits under this section.

22 (6) If a surviving spouse receiving benefits under the provisions
23 of this section thereafter dies and there are children as defined in
24 RCW 41.26.030(7), payment to the spouse shall cease and the child or
25 children shall receive the benefits as provided in subsection (3) of
26 this section.

27 (7) The payment provided by this section shall become due the day
28 following the date of death and payments shall be retroactive to that
29 date.

30 **Sec. 3.** RCW 41.26.162 and 2002 c 158 s 3 are each amended to read
31 as follows:

32 (1)((~~a~~)) An ex spouse of a law enforcement officers' and fire
33 fighters' retirement system retiree shall qualify as surviving spouse
34 under RCW 41.26.160 or 41.26.161 if the ex spouse(~~(~~

35 ~~i~~)) has been provided benefits under any currently effective
36 court decree of dissolution or legal separation or in any court order

1 or court-approved property settlement agreement incident to any court
2 decree of dissolution or legal separation (~~entered after the member's~~
3 ~~retirement and prior to December 31, 1979; and~~

4 ~~(ii) Was married to the retiree for at least thirty years,~~
5 ~~including at least twenty years prior to the member's retirement or~~
6 ~~separation from service if a vested member.~~

7 ~~(b) If two or more persons are eligible for a surviving spouse~~
8 ~~benefit under this subsection, benefits shall be divided between the~~
9 ~~surviving spouses based on the percentage of total service credit the~~
10 ~~member accrued during each marriage.~~

11 ~~(c) This subsection shall apply retroactively.~~

12 ~~(2)(a) An ex spouse of a law enforcement officers' and fire~~
13 ~~fighters' retirement system plan 1 retiree who:~~

14 ~~(i) Divorces the member before separation from service; and~~

15 ~~(ii) Entered into the court order or court-approved property~~
16 ~~settlement agreement incident to the divorce of the member and ex~~
17 ~~spouse after July 1, 2003;~~

18 ~~may be awarded a portion of the member's benefit and a portion of any~~
19 ~~spousal survivor's benefit pursuant to RCW 41.26.160 or 41.26.161 after~~
20 ~~the member's death if specified in the court order or court-approved~~
21 ~~property settlement.~~

22 ~~(b) This subsection shall not apply retroactively.~~

23 ~~(3)(a) An ex spouse of a law enforcement officers' and fire~~
24 ~~fighters' retirement system plan 1 member with at least thirty years of~~
25 ~~service who:~~

26 ~~(i) Divorced the member after being married to the member for at~~
27 ~~least twenty-five years; and~~

28 ~~(ii) Entered into a court order or court-approved property~~
29 ~~settlement agreement incident to the divorce that awarded a portion of~~
30 ~~the member's benefits to the ex spouse after June 13, 2002;)). Such an~~
31 ~~ex spouse shall continue to receive ((that)) the court-awarded portion~~
32 ~~of the member's benefit after the member's death as if the member was~~
33 ~~still alive.~~

34 ~~((b) This subsection shall apply only to a divorce entered into~~
35 ~~after January 1, 1997. However, no payments shall be made to an ex~~
36 ~~spouse of a deceased member qualifying under this subsection for any~~
37 ~~period prior to June 13, 2002.))~~

1 (2) An ex spouse whose benefit resumes as a result of this act
2 shall receive an initial payment equivalent to that portion of the
3 member's benefit received prior to its suspension. The benefit will
4 not be adjusted under RCW 41.26.240 for the period the allowance was
5 suspended.

6 (3) This act shall not result in the payment of benefits for the
7 period during which benefits were suspended.

8 (4) This section shall apply retroactively.

--- END ---

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

11/30/2004

Z-0236.1/Z-0247.1

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officer's and Fire Fighter's Retirement System Plan 1 (LEOFF 1) by allowing all ex-spouses of LEOFF 1 members, who have been provided benefits under any court approved property settlement agreement incident to the divorce of the member and ex-spouse, to continue receiving those benefits after the death of the member. The bill will also allow those ex-spouses whose benefit was suspended upon a member's death to resume their benefit.

Effective Date: 90 days after session

CURRENT SITUATION:

Benefits to many ex-spouses of LEOFF 1 members cease after the member's death.

Under the most recent legislation, ex-spouses of LEOFF 1 members may qualify for survivor benefits if they divorced prior to the member's separation from service and entered into a court order or court approved property settlement after July 1, 2003. In such an instance, the ex-spouse may be awarded a portion of the member's benefit and survivor benefit if that benefit is so designated in the order or settlement.

Earlier provisions in LEOFF 1 required ex-spouses to meet stringent criteria to be eligible for survivor benefits. Prior to 1980, ex-spouses could only qualify if they had been married to the member for 30 years, 20 of which were before the member retired. More recently, an ex-spouse could qualify for survivor benefits if the member had 30 years of service and they had been married at least 25 years. Outside of those narrow parameters, the benefit for a spouse who divorced and entered into a property settlement prior to July 1, 2003 will cease upon the death of the member.

MEMBERS IMPACTED:

We estimate that 221 ex-spouses of members in a system with a total of 9,059 members would be affected by this bill. This includes 16 ex-spouses whose payments have already been stopped, and 205 ex-spouses whose benefits could potentially stop while they are still alive if the member dies first.

We estimate that for a typical ex-spouse of a member impacted by this bill whose benefits have already been stopped, the increase in benefits would be an immediate life annuity of about \$800 per month. For a typical ex-spouse of a member impacted by this bill whose benefits have not yet stopped in the future, the increase in benefits would be a continuation of a benefit of about \$1,040 per month for the life of the ex-spouse following the death of the member.

ASSUMPTIONS:

We relied on data from DRS regarding the ex-spouses who would be impacted by this bill, and the amount of their benefits. For the 10 ex-spouses with missing split amounts, we assumed that the ex-spouse would receive 50% of the member's benefit. For the ex-spouses whose benefits were already stopped, we assumed that the same amount that was stopped would be restarted as a life annuity, with no retroactive payments and no retroactive adjustments for COLAs. For the ex-spouses whose benefits could be stopped in the future, the value of the ex-spouse benefit was based on the difference between the member selecting a joint and 100% survivor benefit and the member selecting a life annuity, using the member's age at the valuation date. We used separate mortality table for healthy and disabled members, and used a healthy mortality table for ex-spouses. We did not factor in any possible difference in mortality rates based on marital status.

FISCAL IMPACT:

Description:

There is no immediate fiscal impact while the plan remains in a surplus or fully funded position. The current plan is projected to remain fully funded because the market value of assets exceeds the liabilities by \$39 million (at 9/30/2003). This proposal would reduce the surplus, but as long as a surplus remains on a market value basis, we would not project the plan to emerge from full funding under current long-term assumptions. However, if the plan experiences short-term actuarial losses, the plan would be more likely to emerge from full funding as a result of the proposed benefit increase. Also, if the plan does come out of full funding, the plan would be projected to resume funding earlier and at a higher rate.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Law Enforcement Officers' and Police and Fire Fighters Retirement System:			
	(Dollars in Millions)		
	Current	Increase	Total
Actuarial Present Value of Projected Benefits	\$4,342	\$9	\$4,351
(The Value of the Total Commitment to all Current Members)			
Unfunded Actuarial Accrued Liability	(\$462)	\$9	(\$453)
(The Portion of the Plan 1 Liability that is Amortized at 2024)			
Unfunded Liability (PBO)	(\$521)	\$9	(\$512)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)			
Increase in Contribution Rates: (Effective 9/1/2005)			
Employee	0.00%		
Employer State	0.00%		

Fiscal Budget Determinations:

There is no projected increase in funding expenditures.

State Actuary's Comments:

We have projected that the cost of this bill would draw down a portion of the plan's current surplus, but would not increase the plan's future funding requirements. This projection reflects the future recognition of prior asset gains and losses not yet fully recognized under the asset smoothing method and reflects the cost of this proposed plan change. The plan's actual funded status will vary depending on the plan's actual experience and could easily be different than projected over the short-term.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2003 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2005 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.